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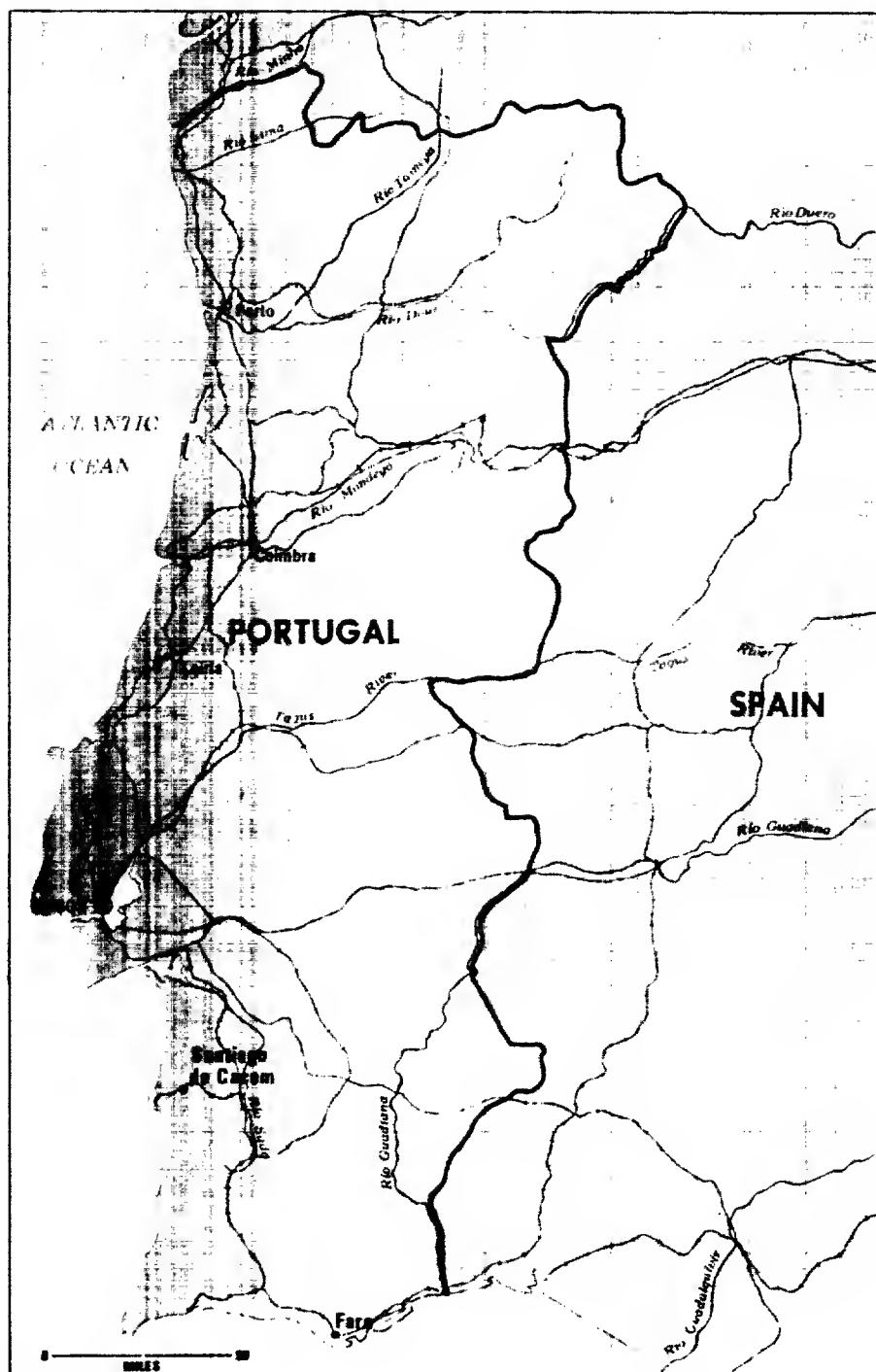
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PORTUGAL

The Portuguese government has taken further steps to assert its authority in the wake of Prime Minister Azevedo's successful trip to Porto last weekend.

The first crackdown by the military on Communist-backed seizures of privately owned farms occurred on Monday north of Lisbon when a cavalry unit arrested ten farms workers' union squatters. The security forces said the workers would be prosecuted for the illegal possession of military firearms. An amnesty for turning in such firearms expired on Saturday. An attempt by outsiders to occupy another farm in the area eventually was abandoned.

Monday's action by the military is significant in light of the Communist-inspired seizure of over half a million acres of prime farmland in southern Portugal since summer. Because much of the expropriated land lies fallow and large numbers of livestock have been senselessly slaughtered, the take-overs could confront the government with serious agricultural shortages by next year.

Also on Monday, left-wing demonstrators were ousted from the civil governor's offices in Faro, in the southern Algarve resort area, after they were occupied to protest the recent removal of the pro-Communist governor. Soldiers rushed to the scene after a combined assault on the offices by the Socialists and Popular Democrats resulted in a brawl in which ten people were injured.

In another incident south of Lisbon, an infantry regiment intervened to prevent violence when leftist farm workers occupied the local farmers' guild.

The Portuguese army, and particularly Chief of Staff Fabiao, have come in for harsh criticism because of lax discipline and their failure to ensure public order. An army spokesman said Monday that 18 percent of the army will be demobilized while Fabiao is away this week on a visit to West Germany.

On the economic front, the government has announced a series of measures intended to stop the flight of capital and strengthen the escudo. Foreign exchange transactions by Portuguese nationals have been severely limited and violators face prison terms ranging from two to eight years.

Meanwhile, the approaching end this week of the government-sponsored airlift of Angolan refugees could spell additional problems for Azevedo's government. Nearly 200,000 returnees will have reached Portugal by October 31. The increasingly embittered and frustrated refugees have refrained from taking direct

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political action, reportedly for fear of reprisals against friends and relatives still in Angola. Last weekend, however, a group believed associated with the refugees claimed responsibility for a bomb attack on the left-wing Angolan cultural center. The group, which blamed the government refugee agency for the plight of the returnees, said it has decided to "answer force with force and violence with violence."

Another refugee group, called the Liberation Front of Portugal, sent a delegation to the US embassy last week to ask for arms, money, and organizational support.

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LEBANON

The fighting in Beirut's commercial area was heavy throughout the day yesterday. By late afternoon, however, the Phalangist militia seemed to be on the defensive and was withdrawing from the luxury hotel district it seized over the weekend.

The Phalangist move into the district was opposed initially by Lebanese Nasirists led by Ibrahim Qualayat and by radical Palestinians. By yesterday morning, it had drawn in units of the major fedayeen groups, Fatah and Saiqa, which previously had stayed out of the fighting.

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The Phalangists could still put up stiff resistance, but there is little doubt that the Palestinians will ultimately be able to force them out.

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Prime Minister Karami yesterday announced formation of a ten-man "security committee" to put into effect a cease-fire that was called last Sunday. He said the group, which includes the country's major political leaders, would be meeting in his office until the fighting stops. The committee will probably not succeed. Most members have been unable to reach the Prime Minister's office because of continued fighting, and one, Socialist leader Kamal Jumblatt, has said he will not participate.

Jumblatt dismissed the new committee as an outdated attempt at "tribal reconciliation." He insisted that Lebanon's problems must be solved through fundamental reforms. Despite this attack and his many other political differences with Karami, Jumblatt almost certainly prefers that the Prime Minister resist efforts by right-wing Christians to force his resignation.

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A showdown between Karami and Interior Minister Shamun was averted yesterday when parliament again failed to muster a quorum. In fact, an aide to Phalangist leader Jumayyil was killed yesterday in the continuing fighting around the parliament building. His death will lead to Phalangist calls for revenge against the far left and will reinforce Jumayyil's refusal to make political concessions.

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ETHIOPIA

A crisis seems to have been developing within Ethiopia's ruling Provisional Administrative Military Council over the past two weeks.

The council's two leading lights, First Vice Chairman Major Mengistu and Second Vice Chairman Lt. Col. Atnaфу, appear to have lost significant support within the military because of their continued squabbling as well as general disenchantment over council policies. Until their pictures appeared on local television and in the government-controlled newspaper a few days ago, both vice chairmen had been absent from the public view. The council chairman, Brigadier General Teferi Benti, and Minister of Defense Alayew have recently begun exercising more authority.

Military units in the field may play a key role in resolving the crisis. Their leaders have expressed increased concern about the unrest throughout the country and over what many see as excessive repression. There have also been complaints that military council members are not equipped for the tasks of government and suggestions that civilian officials should have more authority.

We do not know just how much ground has been lost by Mengistu and Atnaфу in the current machinations. In the interest of maintaining a facade of unity, any major changes which occur may not become apparent for some time.

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SPANISH SAHARA

Moroccan Foreign Minister Laraki, accompanied this time by his Mauritanian counterpart, returned to Madrid yesterday for another round of talks on Spanish Sahara.

The quickening pace of diplomatic contacts and the inclusion of Mauritania, which is aligned with Morocco on the Spanish Sahara dispute, suggest that negotiations with Spain are making progress. An understanding may be near that would partition Spanish Sahara between Morocco and Mauritania and grant Spain military bases and various economic concessions.

The three countries have reason to settle the Sahara dispute quickly. Morocco and Mauritania would like a negotiated fait accompli in hopes of heading off a debate on self-determination for the disputed territory in the UN General Assembly this fall. Spain would like to settle this contentious issue before Juan Carlos assumes power, to spare his new government an additional burden and forestall or at least limit the size of Morocco's planned mass march into Spanish Sahara.

Spanish security officials report that the Spanish military is concerned that if King Hassan goes through with his planned march of 350,000 people, the situation will get out of control. Madrid might allow a small number of Moroccans to make a symbolic entry into Spanish Sahara, but the military has indicated it will not allow large numbers of marchers to cross the border and continue on to El Aaiun.



The three governments may seek a Security Council resolution endorsing whatever arrangements they are able to work out. Spain has consistently sought UN approval for any arrangements for the decolonization of Spanish Sahara. Morocco, for its part, is beginning to refer to its ongoing contacts with Madrid in the context of the Security Council resolution of last week that called on all parties to begin a dialogue.

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Algeria, which opposes a turnover of the territory to Morocco and Mauritania, remains the chief stumbling block to an early resolution of the dispute. According to an Algiers radiobroadcast, Foreign Minister Bouteflika, who is still at the UN, sent a message to Secretary General Waldheim last weekend endorsing his consultative mission to Morocco, Mauritania, Algeria, and Spain, which ended yesterday. Bouteflika made it clear, however, that Waldheim should confine himself to seeking a reduction of tensions in the area and that the adoption of appropriate measures for decolonization should be left to the General Assembly. He added that these measures must be in accord with a recent report by a UN fact-finding group and an advisory opinion by the International Court of Justice, which had the effect of weakening Morocco's claim to the territory.

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SPAIN

Juan Carlos will inherit an economy that has experienced a downturn after many years of robust growth.

The sharp deceleration of the economy, beginning last fall, was precipitated by a slump in exports. From 1970 to 1974, Spain's economy grew at a 6-percent annual rate. Because of rapid inflation and a looming payments problem, the government has proceeded cautiously in efforts to revive activity. As a result, the increase in real Gross National Product this year probably will be only 2 percent, roughly half that of 1974.

Industrial production began to falter in the summer of 1974, plunging steeply after October as export orders shrank. In the first quarter of 1975, seasonally adjusted output fell at a 23-percent annual rate before reviving in April. Industrial production has continued to creep up, but remains well below last year's levels.

Industry operated at only about 80 percent of capacity during the first half of this year. Unemployment worsened as output sagged, rising to 4 percent officially in late July, compared with less than 2 percent last year. Consumer prices are rising at a 17.5-percent annual rate—about the same as last year—with wages increasing 20 to 25 percent.

While Madrid has increased spending and lowered the tax on capital gains to bolster output, it increasingly has focused attention on prices. Anti-inflation measures introduced this year include:

- a linking of further wage increases to rises in the cost of living,
- a freeze on rents and profit margins, and
- a 10-percent tax surcharge on dividends and profits and a 15-percent tax on interest earnings from savings deposits.

The foreign sector is a major constraint on stimulative efforts. Imports are more than double exports, and we expect the trade deficit to rise to more than \$9 billion this year from \$8.3 billion in 1974. Continued heavy demand for imported oil, together with the recent 10-percent OPEC price hike, will push the oil bill to more than \$3.5 billion. Tourist revenues and worker remittances have done well despite the world recession.

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We estimate that the current account deficit may be held to slightly more than \$3 billion—about the same as last year. Madrid has preferred to borrow abroad to cover the current account gap, although foreign reserves are adequate at \$6.3 billion.

Madrid publicly blames its poor trade performance on what it considers unfair treatment by the EC and the US. Spanish-EC trade negotiations have been deadlocked since last year. The EC recently decided not to resume negotiations because of the execution of terrorists. Madrid also is dissatisfied with the results of its attempts to gain more favorable trade treatment from the US.

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SPAIN

Franco's condition yesterday evening was "extraordinarily grave," according to a bulletin signed by his medical team. Earlier in the day, his doctors reportedly admitted that he would not recover, even though his condition at that time had shown signs of improvement.

The prospect that Franco might linger renewed speculation over whether he should be declared incapacitated. There is strong sentiment against leaving the country leaderless for an extended period, but after each relapse, the movement to have Franco declared incapacitated loses ground. It would be a drawn-out, possibly controversial, and in any case ignominious end to the Caudillo's rule.

The need for firm leadership was underlined yesterday by the arrest of 20 more alleged Basque terrorists in the north of Spain and also by the continuing negotiations over the Spanish Sahara problem.

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NETHERLANDS

The Hague may use an impending study on defense spending to try to pressure NATO on the issue of specialization of defense roles.

The purpose of the new study is to determine whether revisions to the 1974 White Paper on defense plans are necessary in view of future budgetary constraints. Plans for the study were revealed in a letter from Prime Minister Den Uyl to NATO Secretary General Luns which confirmed that the Netherlands has reconsidered its plans to retire 13 NATO-committed anti-submarine warfare aircraft and to dispose of a guided-missile cruiser. The aircraft will remain in service and the ship, though already decommissioned, will be kept in reserve reportedly until sometime next year.

Den Uyl pointed out that the Netherlands will not be able to sustain a creditable NATO commitment unless considerable progress is made soon on Alliance efforts to streamline European defenses. The Prime Minister and Defense Minister Vredeling have been strong proponents of specialization of defense roles within the Alliance. Studies are under way on this subject, but progress has been slow.

Some allied officials believe that the Dutch specialization gambit is aimed at reducing The Hague's defense costs. The Dutch, on the other hand, claim their primary purpose is the more efficient use of expenditures at present levels, especially by the smaller allies who find it increasingly difficult to arm a full range of forces with increasingly costly, sophisticated weapons.

Specialization is scheduled to be discussed by NATO defense ministers at the Defense Planning Committee session on December 9 and 10. Meanwhile, Vredeling will continue to advocate speedy NATO action in this field. He will likely contend that cuts are inevitable unless he can report progress on the specialization issue to the Dutch Parliament.

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EC

Commission Vice President Simonet is making a major last-ditch effort to achieve a common EC energy policy. His proposals contain something for each of the Nine—including the independently minded British—and could provide a new impetus for bargaining in this long-stalled area.

Simonet is holding his plan closely, but apparently would ask the member states to agree:

- To speak with one voice on energy matters internationally. The UK would have to give up its demand for a separate seat at the Conference of International Economic Cooperation (CIEC) in December. France would not have to join the International Energy Agency, but would have to stop impeding its work.

- To act together in a supply crisis. France has considered such a commitment provocative to the oil producers, and the UK has feared it would involve sharing control of North Sea oil.

- To guarantee the profitability of investment by community producers. Designed as a major inducement to the UK, this is the key to the Simonet program.

- To share information about oil supplies, nuclear power, and other energy matters.

Another possible element in the program would be a scheme for countries such as West Germany, France, and Italy to provide capital to speed up production particularly, but not exclusively, in the North Sea.

The Commission is to discuss Simonet's proposal today, and could approve a version of it within a few days. Simonet may then decide to submit it to the EC heads of government meeting in Rome on December 1 and 2.

A political decision by EC member states on whether to seek a common policy hinges primarily on the Wilson government. Foreign Minister Callaghan has insisted that London should have its own seat rather than accept EC representation at the CIEC. He has been keeping his own subordinates in the Foreign Office guessing whether his attitude is merely a negotiating tactic. Discussion of Simonet's proposal in Rome might elucidate the British position.

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New momentum toward a common EC energy policy could conflict with the CIEC in Paris in December. Rebuff of the Simonet initiative, on the other hand, is likely to bring EC efforts to find a common energy policy to an end for some time to come.

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EAST GERMANY

The East German leadership is still concerned over labor trouble at the strike-torn Schwarze Pumpe brown coal combine, despite the fact that workers returned to their jobs over the weekend.

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The trouble started when the party capitulated to the demands of about 140 striking Algerian migrant workers for higher wages and better living conditions. The result was a very serious reaction among East German workers at the enterprise. Some 1,200 party workers were mobilized to bring the situation under control, and party representatives had to occupy the central workshops to ensure security.

Many disgruntled East German workers reportedly saw the Algerian strike as an opportunity to complain about inequitable wage scales. Party chief Honecker and Central Committee Economics Secretary Werner Krolkowski believe that the incident was a political provocation that must be treated with the "utmost severity." They are eager to identify the ringleaders. Honecker reportedly said that "when communists are among those who stand against the party, they must be thrown out."

East Berlin's sudden decision to meet the Algerian demands led to sharply different views between local officials and the top leadership. Local leaders were convinced that the strike was near its end and felt that the surrender was "shoved down their throats." They had warned East Berlin that "we will have the Polish workers on our backs, and our own workers too." Encouraged by the Algerians' success, Polish and Yugoslav migrant workers evidently did jump on the Algerian bandwagon, and local officials must now explain to German workers why the Algerians are getting more money for the same tasks.

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LAOS-THAILAND

The Lao are taking a harsh line toward Bangkok and are refusing to cooperate to reduce tensions along the common Mekong border.

Vientiane last week rejected out of hand a Thai proposal for joint Mekong River patrols to assist in preventing clashes along the river. The Thai had proposed this joint effort following several border skirmishes earlier this month. Commenting on the Thai proposal, Radio Pathet Lao asserted that progress on relations could not be made because Bangkok had:

- failed to return former Lao military equipment now in Thailand;
- allowed Lao non-communist exiles "to carry out activities in Thailand;"
- helped the US to "create disturbances in Laos."

Vientiane's position almost certainly reflects Hanoi's influence on the Lao communists. The North Vietnamese have been citing the Thai refusal to return military equipment that came from South Vietnam as a major stumbling block to improved relations with Bangkok. Progress on Lao-Thai relations will probably have to await a resolution of the impasse between Hanoi and Bangkok.

Meanwhile, the Lao seem to be attempting to pressure Bangkok by playing on Thai sensitivities regarding communist insurgency in northeast Thailand. A broadcast on October 23, after blaming the Thai for all bilateral problems, expressed confidence that Thai "patriotic and democratic forces"—a euphemism for the Thai communists—will eventually overthrow the Bangkok government. A Pathet Lao cabinet member on October 23 added fuel to the anti-Thai effort by publicly emphasizing historic Lao claims to much of northeast Thailand. He said that "sooner or later" this area would be reunited with Laos.

For their part, the Thai are taking steps to lessen the possibility that conflicts along the Mekong will get out of hand. Their patrol boats have been issued strict rules of engagement, and other armed forces elements have been ordered not to assist Thai boats involved in clashes with the Lao.

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ARGENTINA

The newly announced accord with portions of business and labor, aimed at staving off mounting pressures on the administration, is an attempt to buy time for the government while it continues to grope for solutions to Argentina's serious economic problems.

Termed the "social truce," the document is a pledge to approach serious economic problems by means other than outright confrontation. It seeks to revive the Social Pact hammered out by the late Juan Peron in 1973, which committed labor and business to limiting their demands in the interest of social peace and national development.

The new accord comes amidst a wave of protest strikes and increased tension among workers, following President Peron's recent announcement that there would not be any new wage hikes. Workers for some time have been complaining that even the huge increases they wrested from the government last June have been eroded by rampant inflation. Thus far, there have been five walkouts at major auto plants in Buenos Aires and Cordoba, while bank workers are out as well.

Union leaders, fearful of losing the support of the rank and file, generally echo the workers' sentiments, but have so far avoided a major confrontation with Economy Minister Cafiero. He publicly advocates holding the line on wages and seeks to tie future increases to greater productivity. Cafiero, despite his strong Peronist credentials and long association with labor, cannot survive indefinitely without giving the powerful workers at least some of what they want; indeed, he has already compromised somewhat by increasing family allowances.

Those labor leaders who are still committed to Peron's presidency eventually could break with her if worker pressure became too heavy. In that event, the administration would be deprived of most of its few remaining active supporters. Some administration critics, particularly among the military, may well hope for such an occurrence as further proof of the administration's weakness and the need to replace it. For every officer who feels this way, however, there is undoubtedly one who fears the emergence of an undisciplined, leaderless labor movement that would, at the very least, greatly complicate any military attempts to govern.

The Peron administration also continues to encounter problems in congress, where opposition leaders are pushing for an investigation of alleged high-level corruption. Peronist politicians, while trying to steer the investigation away from the President herself, have reversed their earlier position and voted to pursue the matter. Presumably, they consider the investigation inevitable, and hope to lessen the potential for damages by insisting that it be conducted in private.

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BRAZIL

The Brazilian government is encouraging foreign cooperation with its new state weapons industry, apparently in hopes of making its armed forces self-sufficient and expanding the nation's export market.

Last April, President Geisel formally proposed the creation of a public enterprise to be known as the War Materiel Industry that could also provide incentives for industrial growth and advance strategic research and development. In justifying the action, Army Minister Sylvio Frota emphasized that stronger centralized government control is needed because "private enterprise, developing without a clear and fixed orientation, had not been enough."

It would appear that government support is already having a major impact. During the past year more than 100 directors of large firms specializing in the production of military equipment have visited Brazil to explore investment possibilities. Brazil has already concluded over \$100 million in export contracts, including major credit deals with Chile and Libya. A recent article in the influential daily *Jornal Do Brasil* expressed special interest in cooperating with the West Germans, stating "We have an ideal community of interest with Germany...Brazil will take advantage of excellent German expertise in the production of arms, including sophisticated missiles, with a guaranteed market assured."

Economic considerations may be as significant as strategic ones. The government is attempting to bolster its sagging balance-of-payments position, and an upswing in weapons exports would provide needed foreign exchange. Although Brazil will probably still need to import sophisticated weapons for some time, an expansion in exports of small arms, motor vehicles, and trainer aircraft would result in valuable feedback from foreign buyers that might speed the transition to self-sufficiency.



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ANNEX

POLAND: DIFFICULT DAYS AHEAD

Polish party chief Gierek is facing the most serious challenge to his political skills since he consolidated his power some five years ago. The Polish people are restive over sporadic meat shortages and prospective increases in food prices.

The current leadership in Warsaw probably has the means and political acumen to avoid the mistakes that toppled the Gomulka regime in 1970. The situation is such, however, that a "spark in the right place" could flare into serious trouble.

The Poles are exasperated. The mood finds expression in widespread complaints about meat shortages and in the recent circulation of stories about dissent within the leadership, strikes, and arson. Polish officials, who admit that the people are dissatisfied, are trying to remedy the situation.

The dissatisfaction is basically an outgrowth of rising popular expectations in the face of a scarcity of food and high-quality consumer goods. In 1970, Gierek promised a better standard of living, and he has delivered on that promise. In his first four years as party chief, personal consumption increased rapidly as a result of a 60-percent increase in real income and sharp rises in supplies of consumer goods. Meat consumption rose from 117 pounds per capita in 1970 to 145 pounds in 1974. Consumption of pork, the meat most Poles prefer, was up more than 28 percent from 1971 to 1974.

Despite these advances, Warsaw has been unable to provide enough attractive consumer goods to soak up the purchasing power generated by Gierek's wage policy. Housing has been a major problem. In the 1971 to 1975 plan period, 1.1 million units will have been built, and Warsaw has promised 1.5 million more by 1980. Gierek has publicly admitted that the numbers are insufficient, but said that no more can be built. Cars, quality furniture, and a number of popular items are also in short supply.

Much of the increased purchasing power of individual Poles can, therefore, only be saved or used to purchase food at artificially low prices. As a result, the demand for food regularly outstrips the supply. Food shortages have sparked occasional outbursts of discontent. Last spring, for example, a meat shortage before Easter touched off numerous minor disturbances. The regime is trying to bring the supply of food and meat into line with demand. The recent attempts to boost meat supplies by raising procurement prices and reducing exports are no more than a stopgap.

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Polish economic specialists have urged strongly that food prices be raised to channel excess demand to consumer durables and away from heavily subsidized food products. Party leaders, fearful that price increases on basic foodstuffs would create political instability, have postponed any decision. Party leaders have, however, been laying the groundwork for price increases. They have been trying to convince the people that price increases for food and other commodities are essential. For several months, they have been spreading the news of the bad harvest this year and conditioning the public to accept the need for higher food prices. They have been emphasizing that Poland cannot go on being an "island in a sea of inflation," and that subsidies to farmers and the food industry are putting a strain on the state budget.

Limited Options

Gierek himself apparently has accepted the need for price rises, and the question now is essentially one of timing and size. The regime could extend the price freeze on basic foodstuffs into 1976, while sharply increasing prices on other items, such as alcoholic beverages. This, however, would do nothing to eliminate recurring food shortages, especially meat.

If, as seems likely, the leadership decides to boost the prices of food and consumer goods, Warsaw will do everything it can to avoid announcing the decision until after the Christmas holidays and to ensure that stores have an adequate supply of meat. Polish leaders vividly remember December 1970, when widespread rioting in the wake of price hikes on food helped bring down the Gomulka regime.

To have any impact on demand, price hikes will have to be substantial. Whereas Gomulka implemented a massive, one-shot increase, Gierek may well decide to increase prices by increments over a period of time. He will probably offer the workers some concessions, such as increased wages and reduced prices on some consumer durables, to compensate in part for price increases on essentials. Popular reaction will be strong, however, no matter when and by how much prices are increased, and public disturbances like those of last spring could result.

Although there are similarities to the situation in 1970, there are also important differences. One of these is Gierek's style. Unlike the cold, aloof Gomulka, Gierek has been careful not to isolate himself from the people or from other party leaders. Since September, he has spent a good deal of time visiting mines, factories, and farms, sampling public sentiment and reminding his fellow citizens that they never have had it so good.

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Media coverage of these events has been frank in reporting Gierek's answers to some tough questions. Poles were told that price hikes cannot be avoided indefinitely, that some food shortages will continue, and that some problems are not susceptible to immediate solution. Gierek seems to enjoy a measure of popularity and trust. Poles acknowledge his accomplishments and are appreciative of his judicious use of the police, but they know that he could be repressive if he chose.

The Gierek team is not factionalized as was Gomulka's leadership. There undoubtedly are differences of opinion over policy issues, but no one seems to covet Gierek's job and he has no obvious successor. All told, Gierek is in a stronger position than Gomulka was in 1970, and he will probably be able to weather the coming storm. In addition, he will probably make some personnel changes to strengthen his economic team. For example, an important shift was made at last Thursday's session of parliament. The ailing chairman of the State Planning Commission, Mieczyslaw Jagielski, was replaced by Tadeusz Wraszczysk, whom the US embassy in Warsaw considers to be the man who symbolized party leader Gierek's commitment to sharply increased trade with the US.

Soviets in the Background

As always in Eastern Europe, the Soviet role will be important. Gierek has had strong backing from the Soviet leadership, if only because he has brought political stability to Poland.

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Moscow has several options for dealing with problems in Poland. It can, as it did in 1971, come to Gierek's aid with hard-currency loans to finance imports of meat and consumer goods. The Soviets promised hard-currency credits when they suspended grain shipments to Poland earlier this year. This level of Soviet help will probably not suffice, and Moscow may be tapped for further loans.

In the event of widespread disturbances in Poland, Moscow could withdraw its support from Gierek and turn to another Polish leader. The Soviets would have to tread carefully. Polish nationalism is particularly strong, and a heavy-handed Soviet push for a leadership change could easily backfire. The Soviets would consider military intervention only as a last resort, for example, if the Polish party, government, and military clearly were unable to preserve the leading role of the party and control the population.

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